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C I B C R

# SERVICE SECTOR INDICATORS

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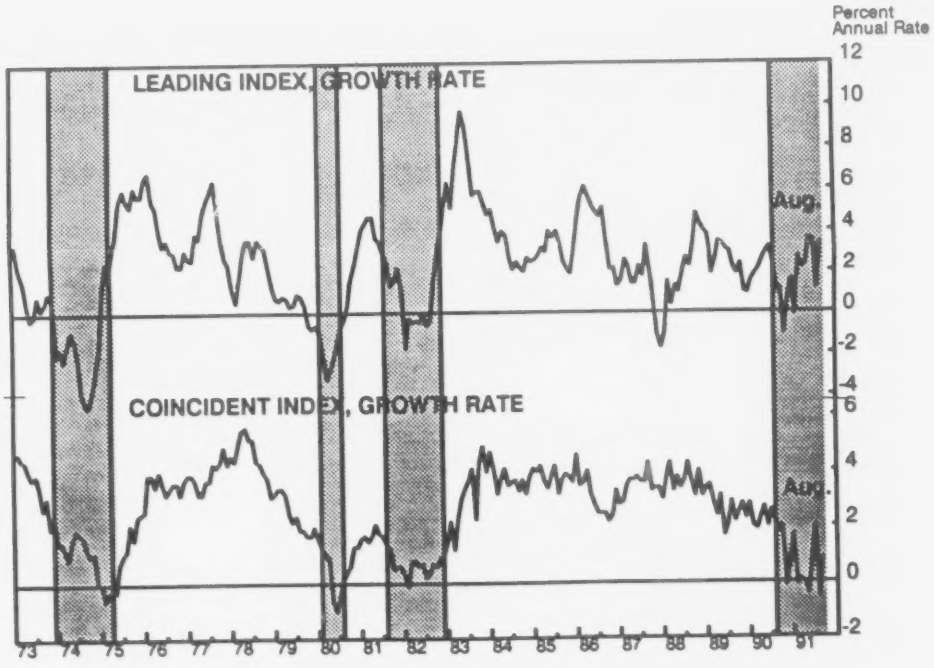
## SERVICES INDEXES BOUNCE BACK

The Leading Index of Service Sector activity, compiled by Columbia Business School's Center for International Business Cycle Research (CIBCR), rose to 169.8 in August from 167.7 in July, while its smoothed annualized growth rate rose to 3.4% in August from 1.2% in July. The index was pushed up by rises in the average workweek and stock prices in services, and a marginal advance in construction contracts for commercial buildings.

CIBCR's Coincident Index of Service Sector activity also rose, from a revised 191.9 in July to 193.2 in August, while its smoothed annualized growth rate recovered from -0.5% in July to 0.8% in August. The index was pushed up by rises in personal consumption expenditures, labor income, and employee hours in services.

The rise in the indexes is a reassuring sign that, despite recent stumbles, the service sector is on the road to recovery.



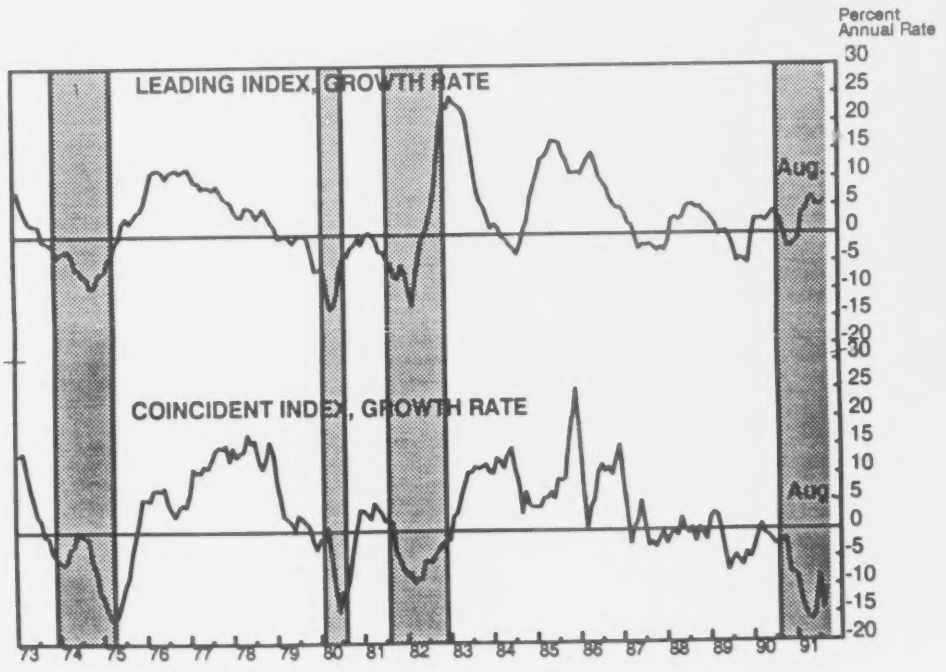

Shaded areas represent business cycle recessions.

## UPBEAT START TO NEW FINANCIAL SERVICES INDEXES

The leading Index of Financial Services activity, just introduced by Columbia University's Center for International Business Cycle Research rose from 203.1 in July to 204.3 in August, while its smoothed annualized growth rate climbed from 4.8% in July to 5.6% in August. The index was pushed up by rises in prices of financial stocks, bond prices, and construction contracts for commercial and industrial buildings, partly offset by declines in deflated money supply M2 and new building permits.

Meanwhile, CIBCR's new Financial Services Coincident Index, which tracks current economic activity in this sector, rose from 159.5 in July to 161.0 in August, while its smoothed annualized growth rate recovered from -14.3% in July to -10.9% in August. The recovery in the index was helped by a rise in aggregate weekly hours in Finance, Insurance, and Real Estate (F.I.R.E.), but hurt by a rise in the unemployment rate in those industries.

*The new indexes show that the financial services sector is still in the grip of its worst recession in sixteen years, but there are clear signals from the Leading Index that this sector will follow the national economy into a recovery in the coming months.*




Shaded areas represent business cycle recessions.

## LEADING INDEX OF SERVICES, AND COMPONENTS

| | Leading Index* (1967=100) | Leading Index Growth Rate (%) | Average Workweek, Services (hours) | Construction Contracts, Commercial Buildings (mil. sq. ft., ann. rate) | S&P Stock Price Index, Services, (Mar. 87=100) | Profit Margins, Services (cents per dollar) |
|---|---|---|---|---|---|---|
| | 1. | 2. | 3. | 4. | 5. | 6. |
| 1990: | | | | | | |
| Jan. | 163.6 | 1.6 | 32.61 | 827r | 116.5 | 4.36 |
| Feb. | 164.1 | 1.9 | 32.72 | 758 | 112.1 | 4.44 |
| Mar. | 164.6 | 2.1 | 32.70 | 720 | 114.6 | 4.49 |
| Apr. | 165.4 | 2.6 | 32.77 | 737 | 113.8 | 4.54 |
| May | 166.0 | 3.0 | 32.70 | 739 | 117.3 | 4.59 |
| June | 166.5 | 3.2 | 32.74 | 673 | 121.2 | 4.57 |
| July | 166.1 | 2.4 | 32 73 | 585r | 118.5 | 4.54 |
| Aug. | 165.1 | 1.0 | 32.65 | 601 | 106.0 | 4.51 |
| Sept. | 165.5 | 1.2 | 32.86 | 598r | 100.1 | 4.45 |
| Oct. | 163.8 | -1.0 | 32.44 | 589r | 98.0 | 4.39 |
| Nov. | 165.1 | 0.5 | 32.64 | 600r | 102.0 | 4.33 |
| Dec. | 166.3 | 1.6 | 32.84 | 475r | 107.8 | 4.38 |
| 1991: | | | | | | |
| Jan. | 165.1 | -0.1 | 32.38 | 496 | 106.2 | 4.44 |
| Feb. | 167.7 | 2.7 | 32.60 | 528r | 118.4 | 4.49 |
| Mar. | 167.6r | 2.2r | 32.56 | 443r | 120.4 | 4.49r |
| Apr. | 168.0r | 2.4r | 32.34 | 565r | 124.1 | 4.49r |
| May | 169.3 | 3.6 | 32.66 | 510r | 122.5 | 4.49r |
| June | 169.5r | 3.5r | 32.87r | 368r | 122.5 | n.a. |
| July | 167.7 | 1.2 | 32.35r | 419 | 122.9 | n.a. |
| Aug. | 169.8 | 3.4 | 32.60 | 420 | 126.8 | n.a. |

## COINCIDENT INDEX OF SERVICES, AND COMPONENTS

| | Coincident Index* (1967=100) | Coincident Index Growth Rate (%) | Services Output, GNP (bil. 1982$, ann. rate) | Services, Personal Consumption Expenditures (bil. 1982$, ann. rate) | Services Labor Income (bil. 1982-84$ ann. rate) | Service Employee Hours (bil., ann. rate) |
|---|---|---|---|---|---|---|
| | 7. | 8. | 9. | 10. | 11. | 12. |
| 1990: | | | | | | |
| Jan. | 190.1 | 2.0 | 1942.4 | 1318.8 | 693.4 | 114.6 |
| Feb. | 190.3 | 1.9 | 1943.7 | 1323.2 | 694.4 | 114.6 |
| Mar. | 191.0 | 2.3 | 1946.6 | 1330.5 | 698.0 | 114.9 |
| Apr. | 191.8 | 2.7 | 1949.6 | 1336.9 | 702.1 | 115.5 |
| May | 191.5 | 2.0 | 1952.5 | 1336.6 | 700.8 | 115.0 |
| June | 192.5 | 2.6 | 1957.4 | 1349.1 | 702.4 | 115.8 |
| July | 192.5 | 2.2 | 1962.4 | 1347.7 | 701.7 | 115.6 |
| Aug. | 192.4 | 1.8 | 1967.3 | 1351.5 | 699.7 | 115.2 |
| Sept. | 193.0 | 2.0 | 1971.8 | 1353.2 | 700.5 | 116.3 |
| Oct. | 191.1 | -0.1 | 1976.2 | 1351.3 | 683.7 | 114.4 |
| Nov. | 192.0 | 0.6 | 1980.7 | 1353.1 | 690.3 | 115.2 |
| Dec. | 193.3 | 1.7 | 1984.8 | 1365.8 | 696.1 | 116.0 |
| 1991: | | | | | | |
| Jan. | 191.7 | -0.1 | 1988.9 | 1360.8 | 685.1 | 114.4 |
| Feb. | 192.0 | 0.1 | 1993.0 | 1361.1 | 684.8 | 114.9 |
| Mar. | 192.1 | 0.0 | 1996.1r | 1369.3 | 688.7 | 113.7 |
| Apr. | 191.7 | -0.4 | 1999.1r | 1373.2r | 684.6 | 112.9 |
| May | 192.8r | 0.6r | 2002.2r | 1376.4r | 691.7 | 114.0 |
| June | 194.3 | 2.0 | n.a. | 1381.2r | 699.7 | 114.8 |
| July | 191.9r | -0.5r | n.a. | 1380.9r | 685.3r | 113.1r |
| Aug. | 193.2 | 0.8 | n.a. | 1386.7 | 693.7 | 113.6 |

Note: Cols. 2 and 8. The growth rates are six-month smoothed percent changes at annual rate, based on the ratio of the current month's index to the average for the preceding twelve months.

r = revised.

Sources: 3. Bureau of Labor Statistics, Production and non-supervisory workers.
4. McGraw-Hill Company, F.W. Dodge Division. Seasonally adjusted by CIBCR.
5. Standard & Poor's Corporation indexes for 13 service industries, compiled by CIBCR.
6. This quarterly series is (1) corporate profits with inventory valuation and without capital consumption adjustments for transportation and public utilities, wholesale and retail trade, finance, insurance and real estate, and services, divided by (2) gross national product for services, both in current dollars as compiled by the Department of Commerce. Quarterly data are interpolated by CIBCR.
9, 10. Department of Commerce, Bureau of Economic Analysis. Quarterly data for output are interpolated by CIBCR.
11. Bureau of Labor Statistics. Payroll index, 1977 = 100, converted to 1982-84 dollars by CIBCR, using CPI, All Urban Consumers, seasonally adjusted.
12. Bureau of Labor Statistics, all employees.

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## FINANCIAL SERVICES: LEADING COMPONENTS

| | Leading Index* (1967=100) | Leading Index Growth Rate (%) | Dow Jones Bond Prices, 20 bonds (% Face Value) | Money Supply (M2), Deflated (Bil. 1982$) | New Building Permits, Housing (1967=100) | S&P Stock Price Index, 40 Financials | Construction Contracts, Comm. & Ind. Buildings (Mil. sq. ft.) | Corp. Profits w/IVA & CCA Finance (Bil. $) |
|---|---|---|---|---|---|---|---|---|
| | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. |
| 1990: | | | | | | | | |
| Jan. | 196.9 | 2.5 | 92.23 | 2446.0 | 140.2 | 29.68 | 72.59 | 19.3 |
| Feb. | 196.8 | 2.4 | 91.13 | 2451.1 | 107.1 | 28.17 | 67.44 | 19.3 |
| Mar. | 196.9 | 2.6 | 90.64 | 2451.0 | 96.1 | 28.50 | 68.19 | 19.3 |
| Apr. | 196.5 | 2.1 | 89.99 | 2453.2 | 89.6 | 27.53 | 64.01 | 21.8 |
| May | 197.4 | 3.0 | 89.59 | 2451.7 | 86.8 | 28.73 | 65.14 | 21.8 |
| June | 198.4 | 3.9 | 90.83 | 2442.9 | 89.6 | 29.84 | 57.86 | 21.8 |
| July | 198.1 | 3.4 | 91.11 | 2437.5 | 86.6 | 28.46 | 52.04 | 24.3 |
| Aug. | 197.1 | 2.2 | 90.34 | 2426.5 | 84.1 | 24.88 | 54.43 | 24.3 |
| Sept. | 195.2 | -0.1 | 89.22 | 2417.6 | 78.9 | 22.57 | 57.76 | 24.3 |
| Oct. | 192.9 | -2.5 | 89.03 | 2405.7 | 73.8 | 20.07 | 53.26 | 21.7 |
| Nov. | 193.2 | -2.4 | 89.77 | 2396.5 | 73.0 | 21.52 | 54.97 | 21.7 |
| Dec. | 194.3 | -1.7 | 91.28 | 2392.7 | 68.1 | 23.53 | 46.25 | 21.7 |
| 1991: | | | | | | | | |
| Jan. | 195.2 | -0.9 | 91.94 | 2385.0 | 64.0 | 23.20 | 50.14 | 25.6 |
| Feb. | 199.8 | 3.6 | 94.09 | 2396.6 | 69.9 | 27.75 | 54.86 | 25.6 |
| Mar. | 200.5 | 4.0 | 93.60 | 2413.1 | 71.1 | 28.64 | 44.82 | 25.6 |
| Apr. | 202.8 | 5.9 | 94.00 | 2413.9 | 72.8 | 30.27 | 51.98 | 28.5 |
| May | 203.8 | 6.4 | 94.81 | 2416.2 | 77.0 | 29.81 | 47.11 | 28.5 |
| June | 203.0 | 5.1 | 94.29 | 2414.5 | 79.7 | 30.18 | 36.51 | 28.5 |
| July | 203.1 | 4.8 | 94.48 | 2401.6 | 80.1 | 29.89 | 39.12 | ... |
| Aug. | 204.3 | 5.6 | 95.64 | 2395.1 | 76.0 | 31.48 | 42.85 | ... |

## FINANCIAL SERVICES: COINCIDENT COMPONENTS

| | Coincident Index* (1967=100) | Coincident Index Growth Rate (%) | Unemployment Rate, Finance & Services | Total Net Credit Market Borrowing, Deflated, All Sectors (Bil.$, ann. rate) | National Income, w/o CCA, Deflated, F.I.R.E.** (Bil.$) | Index of Aggregate weekly hours F.I.R.E.** (1982=100) |
|---|---|---|---|---|---|---|
| | 9. | 10. | 11. | 12. | 13. | 14. |
| 1990: | | | | | | |
| Jan. | 188.7 | -1.2 | 4.3 | 785.674 | 494.200 | 120.3 |
| Feb. | 190.0 | 0.8 | 4.4 | 781.997 | 491.888 | 120.6 |
| Mar. | 187.7 | -0.8 | 4.5 | 778.959 | 489.977 | 120.5 |
| Apr. | 186.7 | -1.2 | 4.5 | 648.170 | 498.915 | 120.9 |
| May | 185.5 | -2.0 | 4.4 | 647.167 | 498.142 | 121.0 |
| June | 184.5 | -2.8 | 4.5 | 643.184 | 495.077 | 120.6 |
| July | 184.7 | -2.3 | 4.5 | 671.402 | 504.598 | 120.7 |
| Aug. | 184.2 | -2.5 | 4.7 | 665.790 | 500.380 | 120.8 |
| Sept. | 184.8 | -1.7 | 4.7 | 660.769 | 496.606 | 122.3 |
| Oct. | 178.7 | -7.5 | 4.5 | 590.780 | 492.729 | 119.4 |
| Nov. | 177.5 | -8.0 | 4.7 | 589.013 | 491.255 | 120.2 |
| Dec. | 176.5 | -8.3 | 4.8 | 587.258 | 489.791 | 121.6 |
| 1991: | | | | | | |
| Jan. | 171.3 | -12.5 | 4.9 | 418.917 | 483.605 | 120.4 |
| Feb. | 167.8 | -14.5 | 5.0 | 417.987 | 482.531 | 120.2 |
| Mar. | 164.5 | -16.0 | 5.6 | 418.296 | 482.889 | 119.9 |
| Apr. | 162.5 | -16.3 | 5.2 | 373.318 | 483.814 | 118.3 |
| May | 162.2 | -14.8 | 5.7 | 372.218 | 482.387 | 119.7 |
| June | 166.8 | -8.4 | 5.7 | 371.397 | 481.323 | 121.3 |
| July | 159.5 | -14.3 | 5.1 | ... | ... | 117.8 |
| Aug. | 161.0 | -10.9 | 5.5 | ... | ... | 119.2 |

Sources: 3, Wall Street Journal, Barrons.
4. CIBCR, Bureau of Labor Statistics, Dept. Commerce, Federal Reserve Board.
5. Dept. of Commerce, Federal Reserve Board, Bureau of Labor Statistics.
6. Standard & Poor's Corporate Indexes for 13 Service Industries, compiled by CIBCR.
7. F.W. Dodge, McGraw-Hill Information Services.
8. Dept. of Commerce, Quarterly data interpolated by CIBCR.
11. U.S. Dept. of Labor, Bureau of Labor Statistics.
12. Federal Reserve Board, quarterly data interpolated and deflated by CIBCR.
13. Dept. of Commerce, Quarterly data interpolated and deflated by CIBCR.
14. Bureau of Labor Statistics.

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**Finance, Insurance, and Real Estate.

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# NEW FINANCIAL SERVICES INDEXES FROM CIBCR

In the U.S. Commerce Department's widely followed Index of Leading Economic Indicators, the service sector is under-represented, though that sector accounts for approximately two-thirds of U.S. GNP. Three years ago, the CIBCR introduced a Leading Index of Service Sector Activity designed to supplement the traditional Leading Index, and remedy this deficiency.

Today, the CIBCR introduces Leading and Coincident Indexes for the critically important Financial Services sector. This sector is a subset of the larger Service Sector and accounts for about 15% of U.S. GNP. The Financial Services Leading Index is designed to predict cyclical upswings and downswings in economic activity in Finance, Insurance, and Real Estate (F.I.R.E.). The Financial Service Coincident Index tracks *current* economic activity in the same industries.

It is hoped that the new Financial Services Indexes, by focusing on a key sector of the U.S. economy, will become an important tool for gaining insights into the driving forces behind U.S. business cycles. The indexes are also expected to help provide valuable advance warning of recessions and recoveries in regional economies, such as the New York metropolitan area, which are heavily dependent on financial service industries.